

## Message Text

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ACTION ARA-20

INFO OCT-01 EA-11 ISO-00 EB-11 TRSE-00 AID-20 CIAE-00

INR-11 NSAE-00 RSC-01 INRE-00 PRS-01 SS-20 NSC-07

SSO-00 NSCE-00 L-03 XMB-07 COME-00 FRB-03 CIEP-03

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USIE-00 OPIC-12 DRC-01 /187 W

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC IMMEDIATE 1512

INFO AMEMBASSY CARACAS

AMEMBASSY TOKYO

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DEPARTMENT PASS EXIMBANK

E.O. 11652: GDS

TAGS: OVIP, (DE LA FLOR VALLE, MIGUEL ANGEL), PFOR, ENRG, PE,  
VE, JA

SUBJECT: PERUVIAN FOREIGN RELATIONS AND MINES MINISTERS VISITING  
CARACAS, WASHINGTON, AND TOKYO IN SEARCH FOR TRANS-  
ANDEAN PIPELINE FINANCING

REFS: LIMA 6837, 6831, 4940, STATE 179893 (ALL NOTAL)

1. SUMMARY: IN ORDER TO OBTAIN FIRM INDICATION OF RESPECTIVE  
GOVERNMENTS' INTENTIONS TOWARD LONG-TERM CREDIT FINANCING FOR  
TRANS-ANDEAN PIPELINE, GOP DELEGATION HEADED BY FONMIN DE LA FLOR  
AND MIN MINES GEN. JORGE FERNANDEZ MALDONADO, ACCCOMPANIED BY  
PETROPERU PRESIDENT FERNANDEZ BACA AND OTHER GOP OFFICIALS ARE  
TRAVELING TO CARACAS AUGUST 17-21, WASHINGTON AUGUST 21-24 AND  
TOKYO AUGUST 24. TRIP RATIONALE BASED FIRST ON DESIRE TO SETTLE,  
AT "POLITICAL LEVEL" DISAGREEMENT WITH JAPANESE OVER TERMS OF  
REPAYMENT OF COMMERCIAL CONTRACT BETWEEN JAPANESE PETROLEUM  
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DEVELOPMENT CORP (LIMA 4940) AND GOP FOR LOAN OF \$330 MILLION,

\$230 MILLION OF WHICH INTENDED TO MEET COSTS OF TRANS-ANDEAN PIPELINE CONSTRUCTION. IN WASHINGTON, GOP TEAM PLANS TO MEET WITH EXIM OFFICIALS, AND POSSIBLY TREASURY SECRETARY SIMON AND COMMERCE SECRETARY DENT, TO IMPRESS UPON USG PERUVIAN INTEREST IN OBTAINING EXIM CONCESSIONAL RATES FOR THE APPROXIMATELY \$200 MILLION OF USG GOODS AND SERVICES TO BE USED IN PIPELINE. IN VENEZUELA, GROUP HOPES TO BUILD ON FRIENDSHIP BETWEEN PRESIDENT PEREZ AND GOP MINES MINISTER TO SEE IF GOV REMAINS INTERESTED IN PROVIDING LONG-TERM CREDITS TO GOP, INCLUDING POSSIBLE CREDITS FOR PIPELINE.

2. IT CLEAR THAT GOP IS VERY CONCERNED OVER SOURCES OF FINANCING FOR PIPELINE. FOREGOING OBTAINED ON CONFIDENTIAL BASIS FROM GOVERNMENT BANKING SOURCE WHO STATED THAT DECISION TO SEND TEAM TO THREE CAPITALS MADE AT LAST TUESDAY'S COUNCIL OF MINISTERS' MEETING BY PRESIDENT VELASCO, AT RECOMMENDATION DE LA FLOR AND FERNANDEZ MALDONADO.

3. FOR WASHINGTON PORTION OF TRIP, GOP OFFICIALS ARE CLEARLY INTERESTED IN TALKING TO MEMBERS OF NATIONAL ADVISORY COMMITTEE (NAC) AS WELL AS EXIMBANK WHO THEY BELIEVE MIGHT BE ABLE TO FAVORABLY INFLUENCE EXIMBANK DECISION TO SUPPORT LOAN FOR US PORTION OF GOODS AND SERVICES FOR PIPELINE. END SUMMARY

4. WELL-INFORMED GOVERNMENT BANKING SOURCE EXPLAINED IN DETAIL FULL BACKGROUND OF GENESIS OF THIS TRIP TO EMBASSY OFFICER WHO CALLED ON HIM ON URGENT BASIS AFTER RECEIPT STATE 179893. SOURCE SAID THAT IN ESSENCE PERU IS VERY CONCERNED ABOUT JAPANESE INTRANSIGENCE OVER ONE CONDITION IN THE COMMERCIAL PETROLEUM CONTRACT TO BE SIGNED BETWEEN PERUVIANS AND JAPANESE. SOURCE NOTED THAT JAPANESE ARE MAKING AVAILABLE \$230 MILLION FOR PIPELINE CONSTRUCTION, AND \$100 FOR JUNGLE OIL EXPLORATION, AND THAT PAYBACK CONSISTS OF 50 MILLION BBLS. OF OIL OVER TEN-YEAR PERIOD. BOTH PARTIES HAVE AGREED THAT JAPANESE LAW WILL APPLY IN CASE OF DISAGREEMENT OVER THE CONTRACT'S INTERPRETATION IN REGARD TO THE 50 MILLION BBLS. CHIEF STUMBLING BLOCK INVOLVES FACT IN ADDITION TO PAYING BACK LOAN IN OIL, A COMMERCIAL SALES CONTRACT BETWEEN JAPAN AND PERU CALLS FOR SALE OF ADDITIONAL 200 MILLION BBLS. DURING SAME TEN-YEAR PERIOD AT PREVAILING WORLD MARKET PRICE. JAPANESE HAVE INSISTED, DURING RECENT NEGOTIATIONS, CONFIDENTIAL

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THAT JAPANESE LAW ALSO APPLY IN THIS CASE, TO WHICH PERUVIANS REPLIED THAT SUCH A CONDITION WAS UNACCEPTABLE. PERU, ACCORDING SOURCE, NORMALLY ACCEPTS LAW OF LENDING COUNTRY IN REGARD TO LOANS, BUT NOT FOR SALES CONTRACTS. HENCE PERUVIAN TEAM "AT POLITICAL LEVEL" WILL VISIT JAPANESE FOR ONE LAST EFFORT TO REACH ACCORD. PERUVIANS HAVE OFFERED TO ACCEPT THIRD PARTY ARBITRATION, BUT JAPANESE HAD REFUSED. SOURCE SAID SOME RANKING PERUVIANS BELIEVE THAT JAPANESE MAY HAVE PUT UP THIS HURDLE IN

ORDER TO FORCE PERUVIANS TO BREAK ORIGINAL CONTRACT AGREEMENT  
WHICH PERU IS OBVIOUSLY VERY RELUCTANT TO DO.

5. TURNING TO US ROLE, SOURCE SAID THAT PERUVIAN REPRESENTATIVES ARE VERY INTERESTED IN EXIMBANK FINANCING AND THAT THEY ARE PREPARING ALL DOCUMENTATION REQUESTED BY EXIM DURING RECENT EXIM OFFICIALS' VISIT HERE, INCLUDING FULL BACK-UP MATERIAL ON RESERVES, WITH INFORMATION FURNISHED BY SCIENTIFIC SOFTWARE CORP. AS WELL AS COMPLETE EXPLANATION OF PETROPERU'S \$100 MILLION EXPLORATION PROGRAM AND PLANS. SOURCE NOTED THAT MINES MINISTER FERNANDEZ MALDONADO, BANCO DE LA NACION'S GENERAL MANAGER ALVARO MENESSES DIAZ, AND COFIDE'S PRESIDENT, DR. LUIS BARUA CASTANEDA, AND PETROPERU PRESIDENT FERNANDEZ BACA WOULD BE BRINGING THIS DOCUMENTATION TO WASHINGTON WITH THEM.

6. SOURCE EXPLAINED FURTHER THAT OXY'S FEEDER LINE DOES NOT FIGURE IN PETROPERU'S OVERALL COST OF TRANS-ANDEAN PIPELINE SINCE GOP THIS WEEK DECIDED NOT TO FINANCE FEEDER LINE (EST. COST \$150 -200 MILLION) BUT TO REQUEST OXY TO BUILD ITS OWN LINE. RATHER, SOURCE NOTED, PETROPERU AND GOP ARE NOW CONVINCED THAT PETROPERU'S FIELDS ALONE JUSTIFY CONSTRUCTION OF TRANS-ANDEAN PIPELINE, SO THAT PERU'S INITIAL EFFORT WILL BE TO CONSTRUCT LINE TO ITS OWN FIELDS. SOURCE SAID THAT DEADLOCK HAD BEEN REACHED IN DECISIONS WITH OXY OVER THE PIPELINE TARIFF ISSUE, AND THAT PETROPERU THEREFORE DECIDING NOT TO CONSIDER OXY'S FEEDER LINE IN ORIGINAL FINANCING PACKAGE. (EMBASSY COMMENT: ON AUGUST 15, LOCAL OXY REPRESENTATIVE TOLD EMBASSY OFFICER THAT OXY AND PETROPERU WERE VERY FAR APART ON QUESTION OF THE PIPELINE TARIFF, WITH PETROPERU ASKING OXY TO PAY EXORBITANT FEES FOR USE OF LINE WHICH OXY NOT PREPARED TO DO.)

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INFO AMEMBASSY CARACAS

AMEMBASSY TOKYO

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7. CONTRACTS FOR CONSTRUCTION AWARDED - SOURCE THEN INFORMED EMBASSY OFFICER THAT PETROPERU AWARDED CONSTRUCTION CONTRACTS ON AUGUST 14 AS FOLLOWS:

- A) SECTIONS 1 AND 2 (FROM JUNGLE SOURCE TO ANDES) - AWARDED TO WILLIAMS BROS. SEDCO CONSORTIUM, TOTAL COST ABOUT \$159 MILLION;
- B) SECTIONS 3 AND 4 (FROM ANDES TO THE COAST) - AWARDED TO ITALO-ARGENTINE FIRM TECHNIT WHICH IS FULLY BACKED BY GUARANTEES AND A LOAN OF \$50 MILLION AT CONCESSIONAL TERMS (10 YEARS, 7.5 PERCENT INTEREST) FROM ARGENTINA GOVT.

8. VENEZUELAN ROLE - SOURCE SAID THAT DURING APRIL VISIT (SEE LIMA 3944) OF MINES MINISTRY FERNANDEZ MALDONADO TO CARACAS, PRESIDENT PEREZ HAD HELD VERY CORDIAL DISCUSSIONS WITH HIM, DURING WHICH PEREZ ALLEGEDLY OFFERED FINANCIAL ASSISTANCE TO PERU. ORIGINAL THOUGHT WAS GIVEN TO A TRIANGULAR AWAP INVOLVING ALGERIAN AND LIBYAN OIL SALES

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TO VENEZUELA'S CUSTOMERS IN EUROPE, WITH PERU BUYING VENEZUELAN OIL IN RETURN TO COVER ITS PETROLEUM IMPORT DEFICIT AND THEN RECEIVING ADDITIONAL VENEZUELAN FINANCING FOR TRANS-ANDEAN PIPELINE CONSTRUCTION. WHILE THIS SWAP NOW SEEMS LESS LIKELY, PERUVIANS HOPEFUL THAT GOV MAY MAKE SOME CREDIT AVAILABLE ON CONCESSIONAL TERMS WHICH COULD BE USED, IN PART, FOR PIPELINE.

9. PIPELINE COST - SOURCE PRESENTED FOLLOWING OVERALL COST ESTIMATES FOR PIPELINE COMPONENTS:

US GOODS AND SERVICES	(\$ MILLIONS)
1) WILLIAMS-SEDCO CONSORTIUM	150
2) BECHTEL SUPERVISORY CONTRACT	16
3) PIER	10
4) MARINE TERMINAL	10

5) PUMPS OF US ORIGIN	10
6) OTHER EQUIPMENT	20
US SUBTOTAL	216
7) LOCAL COSTS	100
8) TAXES	60
9) ARGENTINE CONSTRUCTION	50
10) UK LOAN	10
11) USSR LOAN FOR OIL STORAGE TANKS	7
	443
12) OTHER ITEMS	60
TOTAL COST	500

SOURCE NOTED THAT WITH JAPANESE FINANCING OF \$230 MILLION,  
 PLUS ARGENTINA'S \$50 MILLION, KEY ROLE THAT EXIMBANK  
 FINANCING COULD PLAY IS EVIDENT. HE ADDED THAT  
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SHOULD JAPANESE FINANCING FALL THROUGH, THEN DEPENDENCE  
 ON EXIMBANK WOULD, OF COURSE, BE EVEN GREATER.

10. THE IRANIAN CONNECTION - SOURCE ALSO NOTED THAT  
 IRANIANS HAD ALSO EXPRESSED INTEREST  
 IN ASSISTING PERU DURING VISIT OF FERNANDEZ MALDONADO  
 TO MIDDLE EAST, BUT THAT NO SPECIFIC PROJECTS WERE MENTIONED.  
 SHOULD OTHER SURCES NOT BE AVAILABLE, HOWEVER, THEN PERU  
 WOULD FOLLOW UP WITH THE IRANIANS.

11. COMMENT: IT CLEAR THAT FAILURE OF JAPANESE NEGOTIATIONS  
 TO RESOLVE ALL DIFFERENCES HAVE CAUSED GOP LEADERSHIP TO  
 RETHINK POTENTIAL EXIMBANK ROLE IN FINANCING PIPELINE. TEN  
 DAYS AGO, WHEN EMBASSY OFFICERS CHECKED WITH PETROPERU AND  
 COFIDE ABOUT STATUS OF REQUESTED DOCUMENTS, WE WERE IN EFFECT  
 TOLD NOT TO EXPECT DOCUMENTS AND THAT PERU DID NOT BELIEVE  
 THAT EXIM COULD PROVIDE EITHER TIMELY ENOUGH DECISION OR  
 LARGE ENOUGH FINANCIAL PACKAGE TO BE ATTRACTIVE TO PERU. NOW,  
 WITH JAPANESE SOURCES AT LEAST SOMEWHAT DOUBTFUL, IT SEEMS  
 APPARENT THAT PERU IS ONCE AGAIN TURNING TO EXIMBANK AS  
 POTENTIAL SOURCE OF LENDING. I BELIEVE WE SHOULD HEAR THE  
 PERUVIANS OUT. OBVIOUSLY, SINCE PERUVIANS VISITING WASHINGTON  
 PRIOR TO TOKYO THEY WILL NOT BE IN A POSITION TO HAVE FIXED  
 IDEA ABOUT JAPANESE PARTICIPATION.

12. WHILE RATHER UNORTHODOX, THIS HURRIED TRIP OF PERUVIAN  
MINISTERS IS CLEARLY IN LINE WITH THE "MANAGEMENT STYLE"  
OF THIS GOVERNMENT. ACCORDING TO OUR GOVERNMENT  
BANKING SOURCE, COUNCIL OF MINISTERS' DECISION ON  
TUESDAY LED TO DECISION TO MAKE TRIP, WITH PRESIDENT  
VELASCO SUPPORTING THE IDEA OF SOUNDING OUT THE RESPECTIVE  
CAPITALS. IT REMAINS UNCLEAR WHETHER MUCH PUBLICITY WILL  
BE GIVEN TO TRIP, BUT IT SEEMS CERTAIN THAT VISIT OF TWO RANKING  
MEMBERS OF CABINET WILL BECOME PUBLIC KNOWLEDGE WITH SUBSEQUENT  
PRESS INQUIRIES INTO REASONS FOR TRIP AND CURRENT ECONOMIC  
HEALTH OF PERU. GIVEN THE POSSIBILITY OF SOME UNFAVORABLE  
PUBLICITY ABOUT SUCH A TRIP IN FOREIGN FINANCIAL CIRCLES,  
IT SEEMS EVIDENT THAT GOP LEADERSHIP HAS NOW DECIDED TIME  
HAS COME TO CUT GORDIAN KNOT IN REGARD TO TRANS-ANDEAN  
PIPELINE FINANCING WHICH HAS BEEN HANGING FIRE FOR MANY  
MONTHS.

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## Message Attributes

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**Capture Date:** 01 JAN 1994  
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